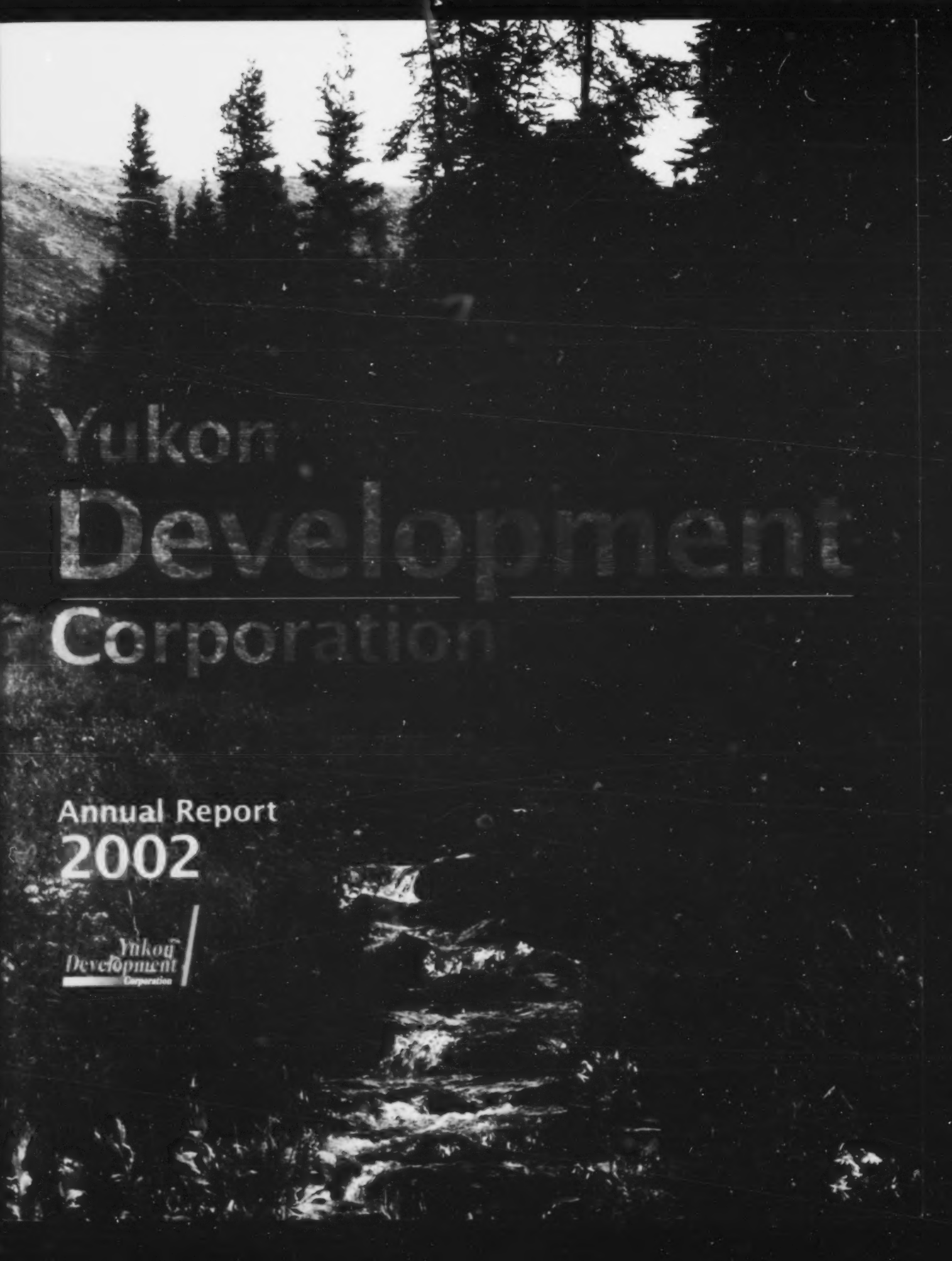
Yukon
Development
Corporation
Annual Report
2002
Yukon
Development
Corporation

104-00695/

June 30, 2003

Honourable Archie Lang
Minister Responsible for Yukon Development Corporation
Government of Yukon
Box 2703
Whitehorse, Yukon Y1A 2C6

Minister Lang:

On behalf of the Board of Directors and management, I am pleased to submit the 2002 annual report for Yukon Development Corporation. It has been an extraordinary year for the corporation and its subsidiaries, Yukon Energy and Energy Solutions Centre Inc. As part of our continuing efforts to enhance public information and accountability, each company has, for the first time, published separate annual reports.

Progress is being made on a broad range of corporate responsibilities such as planning and constructing energy infrastructure, prospecting for renewable energy resources, implementing practical energy cost-saving solutions for consumers, introducing cold climate wind and other emerging energy technologies, reducing greenhouse gas emissions and enhancing corporate governance and strategic planning.

Partnerships with private, First Nation and public sector organizations remain a cornerstone of all our activities. This collaborative approach continues to serve Yukon Development Corporation's efforts to provide the best-priced, integrated energy solutions and services for Yukon consumers in the most environmentally and socially responsible manner while expanding Yukon capabilities and supporting economic development.

Yours sincerely,

David Morrison
Chair

YUKON'S GROWING LEGACY

For northern energy solutions

The Yukon has a track record for initiative and performance validated by external evaluations and recognition by national governments and leading Canadian organizations and agencies.

Government of the Yukon
2000 Top Jurisdiction in Canada for Energy Efficiency, awarded in 2001 by Canadian Energy Efficiency Alliance

2001 Top Jurisdiction in Canada for Energy Efficiency, awarded in 2002 by Canadian Energy Efficiency Alliance

2002 Top Jurisdiction in Canada for Energy Efficiency, awarded in 2003 by Canadian Energy Efficiency Alliance

Kobayashi + Zedda Architects Ltd.
2002 Canadian selection for 2002 International Sustainable Building Conference in Oslo, Norway, awarded for the new Mayo school

Yukon Conservation Society, Yukon Development Corporation, Yukon Energy
2003 National Energy Efficiency Award for Outreach (House Calls Energy Efficiency Program), awarded by Natural Resources Canada

Yukon Energy
1999 National Energy Efficiency Award for Commercial/Industrial Buildings (for design of Yukon Energy Corporate & Technical Services Building), awarded by Natural Resources Canada

2001 R.J. Templin Award to John Maissan, Director of Technical Services, awarded by Canadian Wind Energy Association

2002 Territorial winner, Best Developed Outdoor Site (Whitehorse Fishway), awarded by Attractions Canada

2002 Territorial winner, Best Attraction of National or International Interest (Whitehorse Fishway), awarded by Attractions Canada

2002 Award of Excellence for Employee Safety, awarded by Canadian Electricity Association

Yukon Housing Corporation
1999 Finalist, National Energy Efficiency Award (Green Mortgage Program), awarded by Natural Resources Canada

Selkirk First Nation
2003 Yukon Community Energy Leadership award for outstanding commitment to improving energy efficiency and reducing greenhouse gas emissions that contribute to climate change, awarded by Yukon Development Corporation

Yukon Green Building Design Competition
2002 Kobayashi + Zedda Architects Ltd., award for best artistic interpretation of green architecture

2002 Sinclair and Associates, award for best analytical interpretation of green architecture

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Yukon Development Corporation
2001 Gold Level Reporter for tracking, reporting and reducing carbon dioxide emissions, awarded by Voluntary & Challenge Registry Inc.

2001 Outstanding Individual Leadership in Energy Efficiency to President & Chief Executive Officer, awarded in 2002 by Canadian Energy Efficiency Alliance

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2002 National Leadership Award for Greenhouse Gas Emission Reduction Action Plan by Small and Medium-size Enterprises, awarded by Voluntary Challenge & Registry Inc.

2003 ENERGY STAR® Market Transformation Award for Provincial/Territorial governments (2002 Fridge Exchange Program), awarded by Natural Resources Canada

Michael L. Barton
1993 Award of Merit for publication of "Architectural Design Guidelines for the Yukon" which included energy efficiency and green planning and design, awarded by International Winter Cities Association

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CORPORATE PROFILE

Yukon Development Corporation is a crown corporation created in 1986 by the *Yukon Development Corporation Act*. It is governed by a Board of Directors appointed by the Yukon government and has a legislative mandate to participate with the private sector in the economic development of the Yukon. In particular, the Act mandates the corporation to:

- develop and promote the development of Yukon resources on an economic and efficient basis;
- promote employment and business opportunities for territorial residents;
- assure a continuing and adequate supply of energy in a manner consistent with sustainable development; and
- implement development policy directives issued to it by the Yukon Cabinet.

A government Order-in-Council in 1993 restricted the corporation's role to energy-related activities designed to promote the economic development of the Yukon. In addition to its mandate, the corporation is to:

- alleviate the effects of any energy shortage that may occur; and
- promote the establishment, development and operation within the Yukon of industries or undertakings that are by their nature energy-dependent through the provision of cost-effective energy or energy-related infrastructure.

The corporation has four primary functions. It acts as a sole shareholder in the subsidiaries Yukon Energy and the Energy Solutions Centre Inc., invests in energy infrastructure planning and development, conducts research

CORPORATE LEADERSHIP PROGRAMS AND SERVICES

Supporting Yukon capacity building, electrical rate stabilization, First Nation economic opportunities and environmental stewardship.

Rate Stabilization Program: Stabilizes electrical bills for residential, general service and municipal customers to a maximum of 9% above January 1997 levels according to winter and summer season subsidies. Benefits are delivered through monthly billing services of The Yukon Electrical Company Ltd. and Yukon Energy.

Yukon Energy and First Nations Scholarship Programs: Invests in the development of the Yukon's human resource capacity to meet future energy challenges and opportunities through post-secondary student financial assistance. Co-sponsored with Yukon Energy, two scholarships through the Yukon Energy Scholarship Program and scholarships through the Tr'ondëk Hwëch'in First Nation and the First Nation of Nacho Nyak Dun scholarship programs are awarded.

Environmental Stewardship Program: Stimulates and finances environmental projects and activities facilitating energy-related sustainable development. Will be delivered through the Centre for Environmental Stewardship and other joint ventures with the public and private sectors, First Nations, and community organizations and agencies.

YUKON GOVERNMENT ENERGY INITIATIVES

Delivered by Yukon Development Corporation.

Yukon Development Corporation is responsible for developing and delivering four major government energy initiatives, along with other measures in the Yukon government energy policy action plan. The initiatives are financed by special 10-year reserve funds created in 1998-1999 by the Yukon government. Funding for program development and administration is the responsibility of Yukon Development Corporation. Joint ventures, partnerships, investment financing and other funding sources are pursued to supplement and sustain these initiatives.

Rate Stabilization Initiative: Goal is to help to deliver affordable and stable electrical bills for Yukon consumers. The current initiative was extended by Order-in-Council to March 31, 2005 with total expenditures capped at $12 million.

Energy Efficiency Initiative: Goal is to make the efficient use of energy a Yukon way of life, including, but not limited to, conservation by reducing the amount of energy required by customers, reducing peak demands and promoting use during off-peak hours and seasons. This will all increase the effectiveness and efficiency of base-load electrical generation facilities. This initiative was financed by the Yukon government through a $1 million fund.

Green Power Initiative: Goal is to increase production and sale of small-scale renewable energy to meet the requirements of Yukon communities and industry while reducing greenhouse gas emissions. Implementation includes measures to displace diesel energy production and reduce emissions, provide consumers with green power options, expand the technical capability of the territory to develop green power alternatives, and improve the cost-effectiveness and long-term competitive base of renewable energy. The initiative was financed by the Yukon government through a $3 million fund.

Wind Research and Development Initiative: Goal is to support the next generation of cost-effective, commercial-scale, cold climate wind research and development, primarily through the installation of a second wind generator on the Haeckel Hill site near Whitehorse. The initiative was financed by the Yukon government with a $2 million fund.

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and development, and designs, delivers and coordinates energy programs and services. Programs and services include initiatives like energy efficiency, green power, rate stabilization, and rural electrification for residential and commercial consumers.

VISION

Yukon Development Corporation (YDC) is the recognized steward for territorial energy self-sufficiency through sustainable, cost-effective, reliable, renewable and integrated energy solutions for Yukon consumers. The corporation works with utilities, business, industry, Yukon First Nations, communities, non-government organizations and public governments to enhance regional competitiveness, community development and economic diversification.

In the energy sector, YDC sets the circumpolar standard for consumer choice, environmental citizenship, northern innovation optimizing the Yukon's natural resource endowment, and development of indigenous capacity to meet existing and future energy challenges and opportunities.

Our business respects and balances territorial interests in energy, the environment and the economy through a rigorous approach to sustainable development and sound business practices.

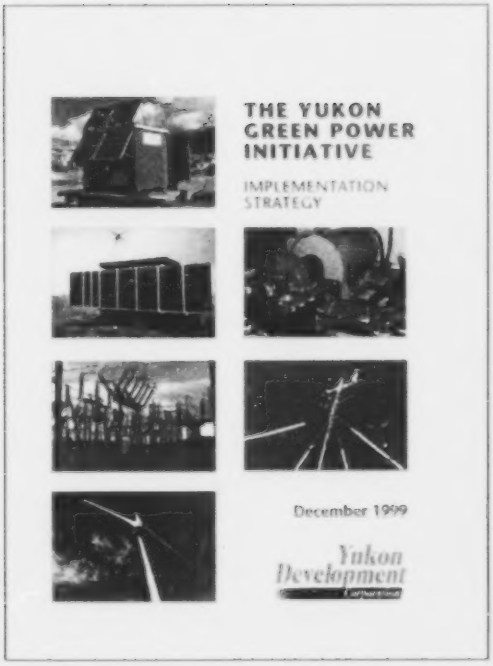
MISSION

To provide the best-priced integrated energy solutions and services for Yukon consumers in the most environmentally and socially responsible manner.

VALUES

The corporation's stewardship role, actions and activities are guided by a set of values that focus on:

- **Citizen-centred stewardship:** We exist to serve the public and contribute to community and economic well being. Balancing public policy interests, we strive to lead in implementing short-and long-term energy solutions that meet the needs of Yukon consumers, communities, the economy, and the environment. To this end, we recognize



the contributions that others make, and seek cooperative relationships and joint ventures to further mutual objectives.

- **Integrity:** Out actions match our words, guided by ethical standards and respect for others, along with consistent efforts to build enduring relations with Yukon First Nations, communities, utilities, public governments and the private sector.
- **Sustainability:** At all times our actions must be infused with the principles of environmental and economic sustainability as part of a rigorous approach to sustainable development.
- **Commitment**: We are committed to acting in the best interests of existing and future Yukon energy consumers, demonstrating the value of public ownership while being prudent in the investment of resources, and always remembering that we are spending public funds and making long-term decisions.
- **Local capability:** We contribute to developing the overall capacity of Yukon people, businesses and communities to participate in the growth of the energy sector.
- **Innovation:** We encourage responsible risk-taking and creative thinking, learning from and building on successes and failures. Furthermore, we focus on initiatives that are relevant to the changing needs and expectations of our customers, doing the right things effectively.
- **Accountability:** We accept responsibility for successes and failures and want to accomplish and be seen to be accomplishing, our goals and priorities while communicating in a cooperative, informative and accountable manner.

YUKON'S ENERGY SOLUTIONS GROUP OF COMPANIES

The Yukon's energy solutions group of companies consists of Yukon Development Corporation and its subsidiaries, Yukon Energy and the Energy Solutions Centre, as well as the Centre for Environmental Stewardship.

YUKON ENERGY CORPORATION

Member of the Yukon's energy solutions group and wholly owned subsidiary of Yukon Development Corporation

Yukon Energy's mission is to provide a sufficient supply of safe, reliable electricity and related energy services to customers throughout the Yukon, now and in the future, while following sound business practices and demonstrating leadership in protecting the environment.

It is governed by a board of directors consisting of up to nine directors appointed by Yukon Development Corporation on the recommendation of the Minister responsible for Yukon Development Corporation.

A president and chief executive officer oversees the business and affairs of the utility supported by a management team and about 65 employees.

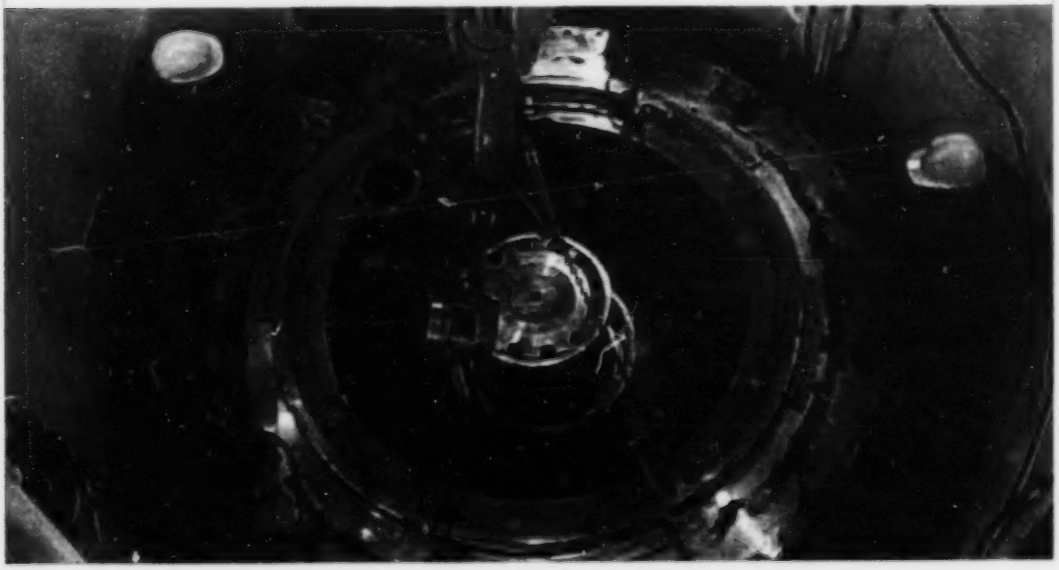
Yukon Energy's corporate headquarters is located at #2 Miles Canyon Road, adjacent to the Whitehorse Rapids Generating Facility in the Whitehorse area. District offices are maintained in Mayo, Faro and Dawson City.

Corporate strategic objectives relate to corporate development, reliability and energy security, employee satisfaction, safety in the workplace, rate stabilization, quality customer service, "good neighbour" relations in all communities, enduring relationships with Yukon First Nations, the environment, and sustainable development.

Activities undertaken include:

- power generation through a combination of hydro, wind and diesel facilities;
- transmission of electricity through the Whitehorse-Aishihik-Faro transmission system and the forthcoming Mayo-Dawson City transmission line system;
- direct distribution of electricity to residential, commercial, other general service, and government customers in Dawson City, Mayo, Faro and other rural areas of the territory;
- wind research and development;
- environmental management;
- energy efficiency and demand-side management;
- market development, including renewable power sales, rural electrification; and
- First Nation and community relations.

Note to reader: A 2002 annual report for Yukon Energy is published separately.



ENERGY SOLUTIONS CENTRE INC.

Member of the Yukon's energy solutions group and wholly owned subsidiary of Yukon Development Corporation.

Energy Solutions Centre Inc. operates the Energy Solutions Centre, a joint initiative of Natural Resources Canada and Yukon Development Corporation. The centre provides technical services, and coordinates, promotes and delivers federal and territorial energy programs to Yukon households, businesses, institutions and local governments.

Its mission is to engage Yukoners in the challenge and potential of energy efficiency and green power as solutions to climate change by mobilizing individuals, businesses, communities and First Nations to implement projects that will reduce greenhouse gas emissions in the Yukon.

The overall strategy for the centre is to demonstrate the relevance and benefits of energy efficiency and renewable energy projects and build support for their broader application through on-the-ground, energy cost-saving solutions and success stories in the Yukon.

Its mandate is broad enough to allow for a number of key roles, including information dissemination, technical support services, program promotion and coordination, federal and territorial program delivery, public education, financing, skills training, research, development and demonstration projects, and needs assessment for adapting or developing new energy programs, technologies and services.

Energy Solutions Centre Inc. is governed by a board of up to five directors appointed by Yukon Development, including the president ex officio. With input from Natural Resources Canada and Yukon government representatives, the board reviews and approves the annual strategic business plan.

A managing director provides overall program coordination and administration. A team of technical consultants and contractors provides technical services, program outreach, and assistance and leadership in specific program areas. This is supplemented by additional program and technical skills on a project specific basis, as required.

The centre is located in a central storefront at 206A Lowe Street in Whitehorse.

It works through the private sector in cooperation with a diverse team of crown corporations, departments, community, professional and industry organizations, and electrical utilities.

Objectives of the centre relate to technical services, program and service brokering, integrated solutions, joint ventures, community energy management, action on climate change, and outreach.

Activities undertaken include:

- providing technical services and information about energy efficiency and renewable energy technologies, programs and initiatives;
- delivering energy programs for Yukon Development Corporation, and the Yukon and federal governments;
- offering technical and specialized training programs and workshops on energy efficiency, auditing, assessment tools and emerging technologies;
- pilot and demonstration projects;
- networking and collaborating with organizations at local and national levels; and
- public education and outreach.

Note to reader: A 2002 annual report for the Energy Solutions Centre is published separately.

CENTRE FOR ENVIRONMENTAL STEWARDSHIP

Unincorporated member of the Yukon's energy solutions group.

The Centre for Environmental Stewardship is an unincorporated administrative vehicle created to facilitate implementation and marketing of Yukon Development's environmental stewardship program. It is designed to increase the effectiveness, benefits and return on modest corporate investments in energy-related environmental stewardship by Yukon Development Corporation, Yukon Energy and the Energy Solutions Centre Inc.

In general terms, the centre facilitates the participation of Yukon business and industry and engages in environmental stewardship activities contributing to sustainable energy development, healthy communities, and territorial energy self-sufficiency.

Objectives of the Centre for Environmental Stewardship include:

- enhancing awareness of environmental stewardship and sustainable development practices relating to energy production and use;
- encouraging private sector participation in environmental stewardship;
- identifying opportunities for collaboration with communities, First Nation and public governments, non-government organizations, business and industry, and other agencies;
- promoting dialogue and scientific and traditional knowledge research on sustainable development issues;
- contributing to the Yukon's technical capacity to research, plan and implement environmental initiatives;
- building on the abilities of the Yukon's energy solutions group of companies.

The activities of the centre are to:

- facilitate environmental stewardship, including identifying opportunities, and designing and supporting projects and activities;
- develop territorial capacity, including applied research, knowledge and data access and dissemination, professional development, training and workshops, career-related summer employment and co-op placements in environmental and sustainable development fields;
- create public awareness and respect for the environment through publications, conferences, educational tours, physical and electronic clearinghouse(s) and networks building on corporate, government and community activities;
- manage, broker and deliver initiatives, facilities, programs and services.

SUPPLY-SIDE

Energy sector development programs and services

Supporting infrastructure planning, research and development, renewable energy resource assessment and rural electrification

Energy Planning and Development Program: Undertakes or finances long-term electrical and energy-related infrastructure planning, design and development through feasibility planning, technical and business case analysis, acquisition of right-of-ways to enable future expansion of the Yukon-wide energy transportation network. Also facilitates the development of renewable energy supply alternatives while enhancing the potential for distributed generation on a timely basis.

Rural Electrification Support Program: Facilitates the extension of electrical services and stand-alone renewable alternatives to rural residential, small-load commercial and other non-industrial customers. Encourages the use of available surplus hydro power, contributes to long-term load diversification and electrical rate stabilization, and offers consumers choice.

Community Wind Resource Assessment Program: Assesses small and large-scale sites for viable wind energy installations. Serves rural and isolated consumers and the Yukon's energy network and is building the foundation for a future Yukon wind energy atlas.

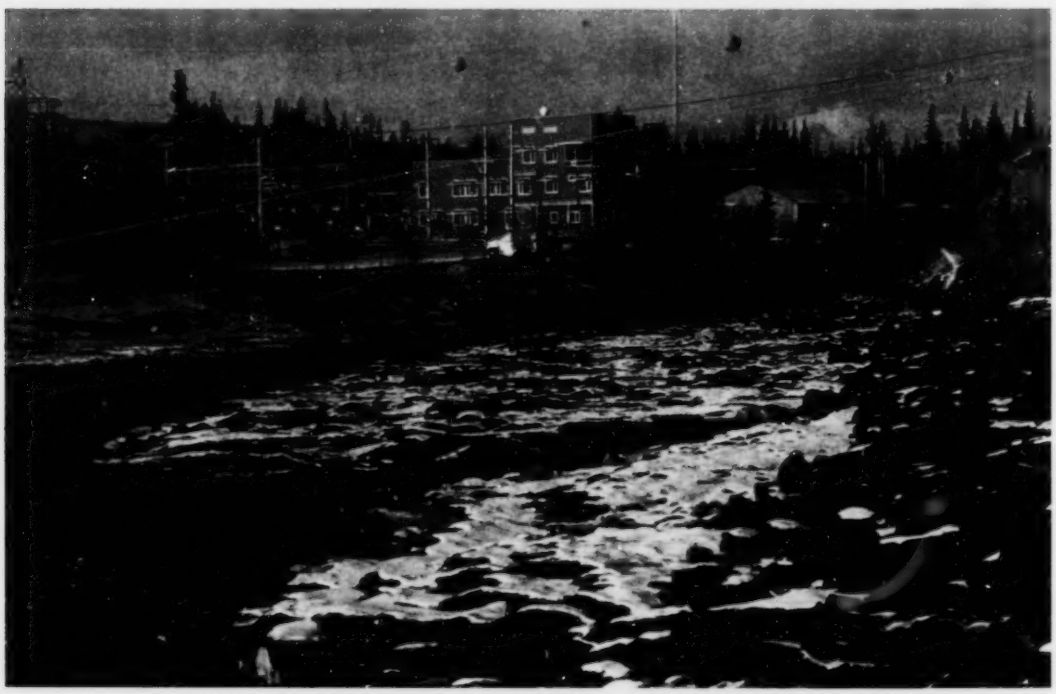
Small Hydro Resource Assessment Program: Assesses and ranks small hydro sites (under 20 MW) on a regional basis facilitating priority setting for future renewable development, supporting regional land use and habitat planning, and future economic opportunities. Builds on a comprehensive, computer-based database system on the Yukon's hydro energy potential including information on all known sites throughout the territory.

Geo-Thermal Resource Assessment Program: Assesses earth energy potential for site-specific and community energy (heating) requirements, primarily within the boundaries of Yukon municipalities and communities. Builds on a computer-based well registry and includes existing and future drilling data acquired from the public and private sectors.

Green Energy/Power Installation and Production Incentive Program: Supports the planning and financing of renewable energy and green power projects through a combination of technical and resource assessments, feasibility studies, and flexible financing measures, generally executed through joint ventures and participation in public-private partnerships, First Nation and other local economic initiatives.

Wind Research and Development Program: Develops wind energy technology for cold climates to displace existing community diesel-electric generation and helps meet future energy requirements.

Applied Research and Development Program: Sponsors market testing and introduction of emerging energy technologies, practices and processes for use in the Yukon and other northern regions. Includes, for example, heat pumps for air-to-air and earth energy applications, solar technologies for air, water heating and electricity, and hot water tank and parking lot controller timers.



DEMAND-SIDE

Energy market transformation programs and services

Supporting energy efficiency, renewable energy, and integrated energy cost-saving solutions

Residential Energy Management Program: Implements electricity cost-saving solutions for household heating, lighting and other systems through energy audit services and low interest loans in combination with other programs offered by Yukon Housing Corporation.

Commercial Energy Management Program: Assists businesses, municipalities and First Nations to reduce energy demand through technical audits, incentives and financing of practical, integrated solutions. Complemented by targeted initiatives, including the Yukon Tourism Industry Energy Solutions Partnership Memorandum of Understanding.

Renewable Power Sales Incentive Program: Supports installation of heating and processing systems for existing and new commercial, institutional, industrial and government facilities taking advantage of low-cost, surplus hydro-power.

Appliance Education, Exchange and Green Procurement Program: Encourages replacement of older appliances and purchasing of "best in class" energy efficient appliances (such as fridges and washers) and other energy consuming equipment. Implemented by retailer training, consumer education and awareness, appliance exchange and recycling, and expansion of EnerGuide for Houses audits.

Wood Energy Education and Exchange Program: Improves use, efficiency and safety of wood energy appliances through public education and community workshops. Promotes installation standards, technical training and pilot exchange projects.

Technology and Energy End-Use Research and Development Program: Supports energy market transformation initiatives for rural and remote areas, technologies, new building design and community energy management. Includes, for example, heat pump technology using earth energy, solar/photovoltaic systems for heating and electrical power, and community heat utilities.

Energy Audit and Technical Support Service: Generates integrated, appropriate and cost-effective energy solutions for Yukon building owners and operators through trained and certified private sector commercial energy auditors, and Yukon-based professional engineers and architects. Includes development of databases on Yukon weather and buildings, preparation of business cases, and provision of technical advice and project management services.

Green and Appropriate Northern Design Service: Promotes and supports the design of sustainable buildings and communities, energy modelling, professional development for private sector engineers and architects, life-cycle costing analysis, development of new building energy performance standards, and public education activities.

First Nation Community Energy Management Service: Facilitates the assessment of opportunities and develops local partnerships to pursue household and First Nation facility energy cost-savings, along with First Nation capacity building and participation in regional opportunities for renewable energy development.

Federal Energy Program Brokering Service: Facilitates effective access to federal government energy efficiency, renewable energy and related climate change programs pursuant to the Canada/Yukon Letter of Cooperation on Energy Efficiency and Renewable Energy.

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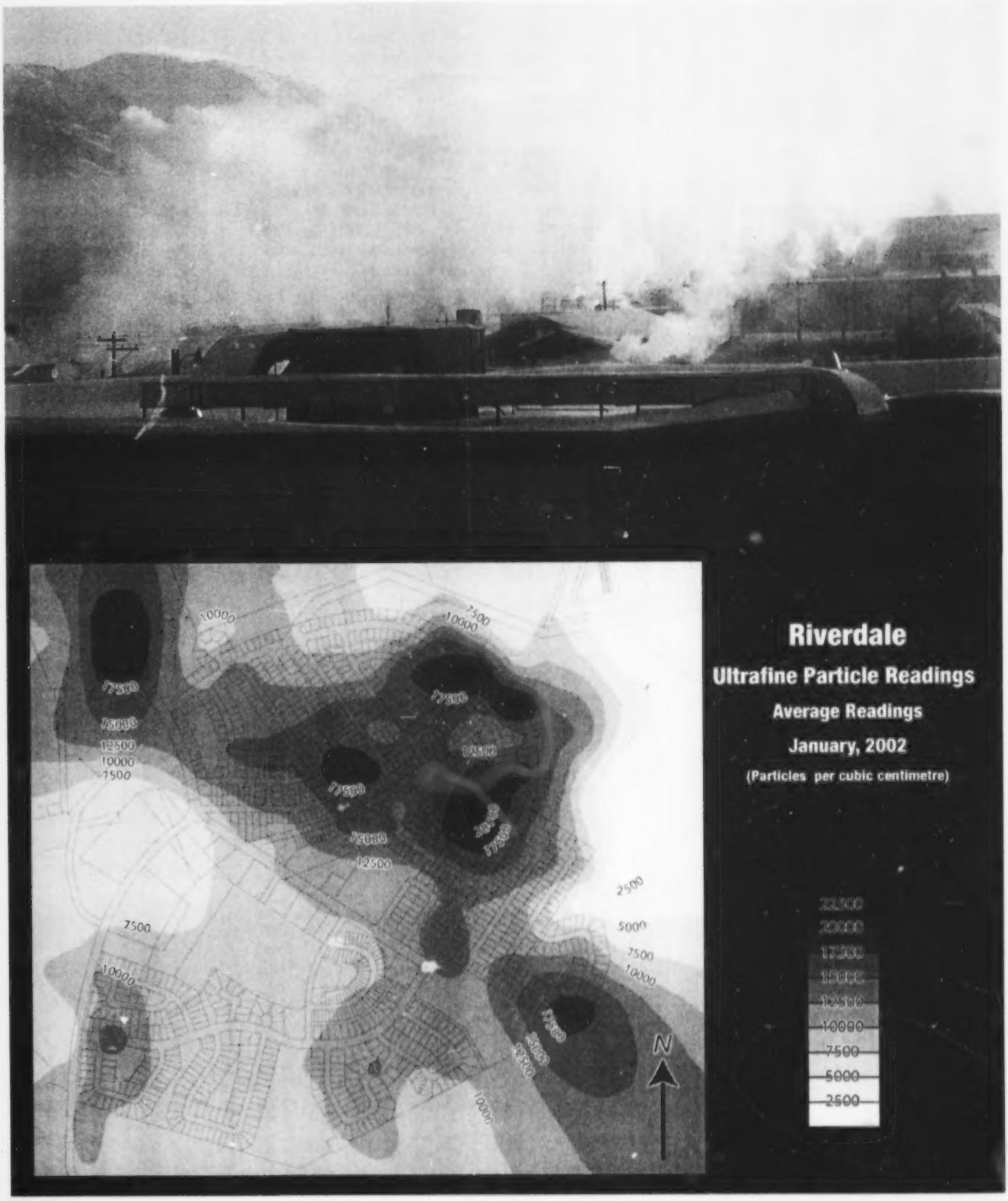
First Nation Community Energy Management Service: Facilitates the assessment of opportunities and develops local partnerships to pursue household and First Nation facility energy cost-savings, along with First Nation capacity building and participation in regional opportunities for renewable energy development.

Federal Energy Program Brokering Service: Facilitates effective access to federal government energy efficiency, renewable energy and related climate change programs pursuant to the Canada/Yukon Letter of Cooperation on Energy Efficiency and Renewable Energy.


Riverdale
Ultrafine Particle Readings
Average Readings
January, 2002
(Particles per cubic centimetre)
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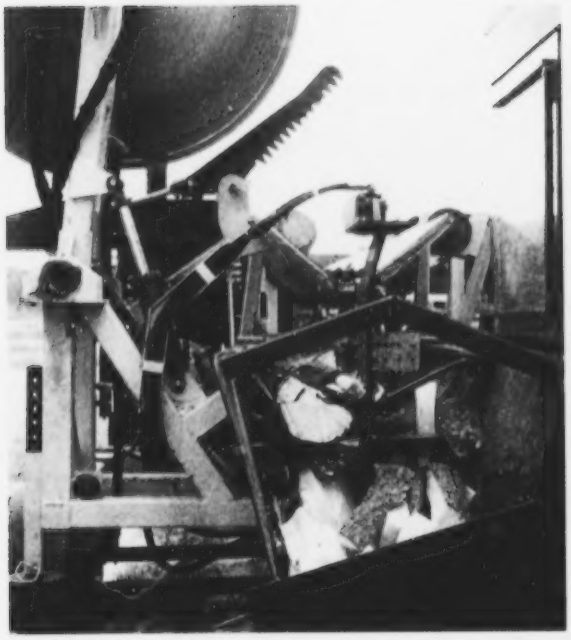


2002 – YEAR IN REVIEW

Legislation and regulation

In April 2002, the new Corporate *Governance Act* including amendments to *Yukon Development Corporation Act* was passed in the Yukon legislature. These regulatory changes aligned and made consistent the administrative mechanisms used by government corporations to provide accountability to government.

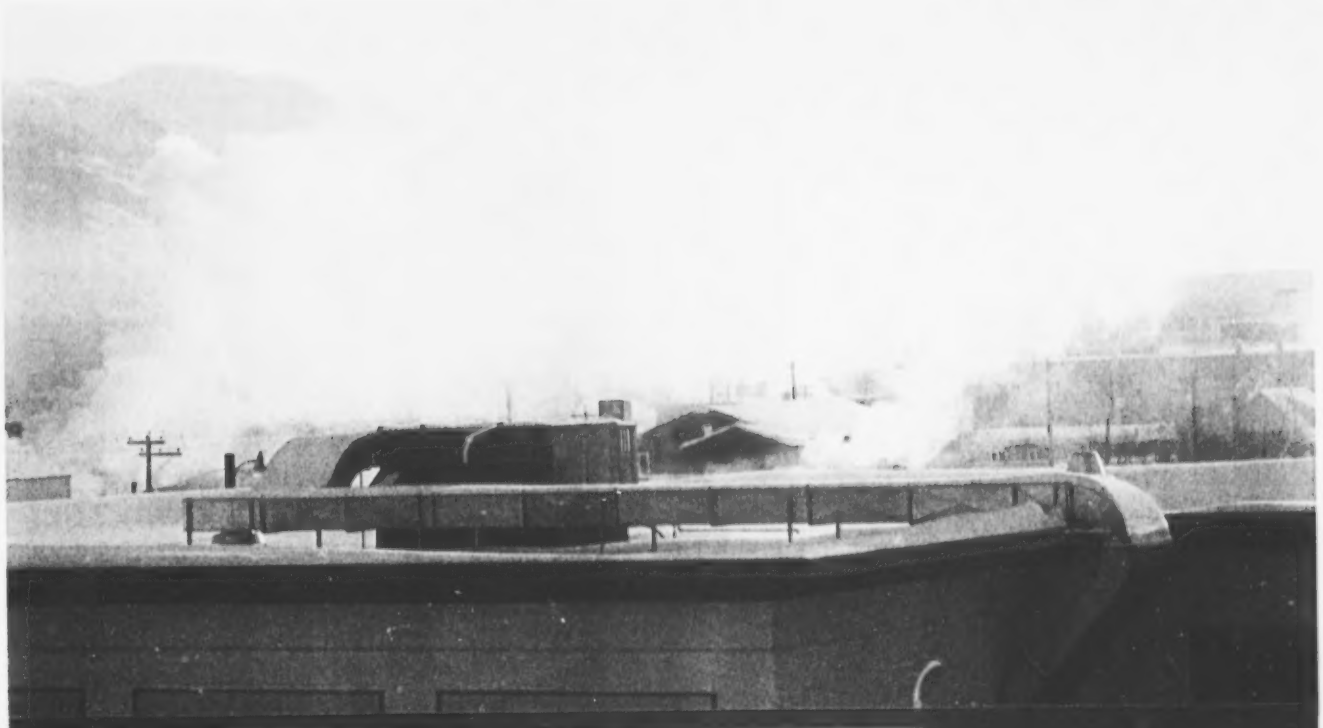
Yukon Development Corporation also developed accountability plans in accordance with the *Accountability Act* as described in "Leadership, Governance and Accountability."

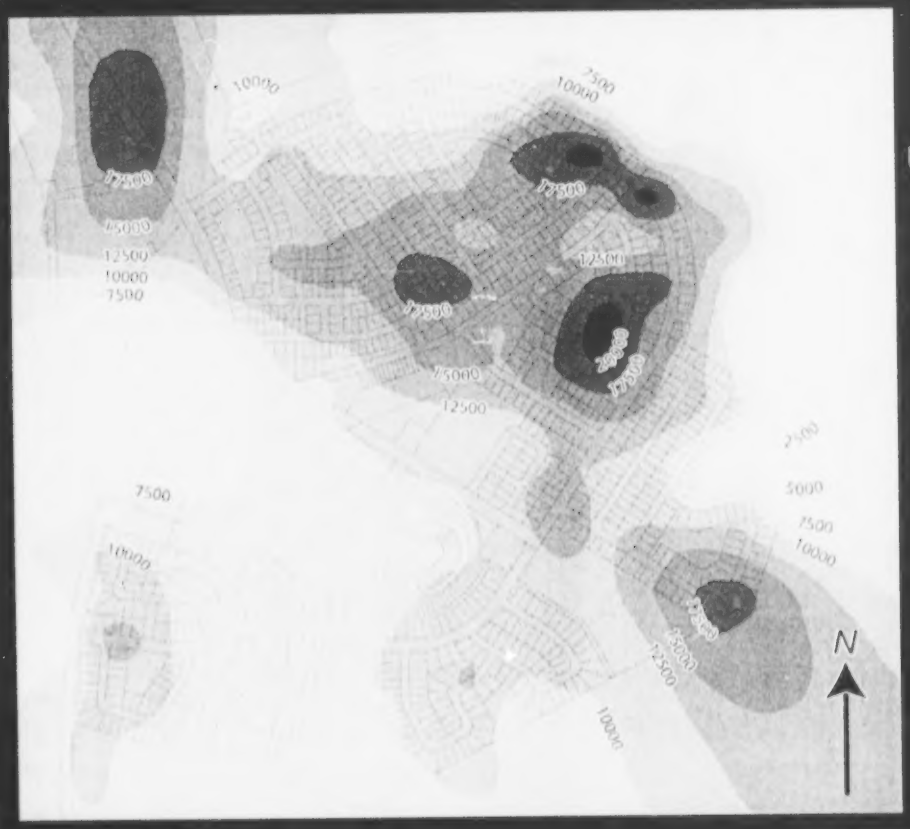
In 2002, the Government of Yukon issued directives to the board of directors that directly impacted the business and affairs of Yukon Development Corporation. The following Order-in-Council was given pursuant to paragraph 4(d) of the *Yukon Development Corporation Act:*

Order-in-Council 2002/75 dated March 27, 2002 directed the Corporation to provide the Yukon government with funding required to pay all costs incurred by the Yukon Utilities Board to conduct a utility franchise application review process with respect to a proposed gas distribution system within the City of Whitehorse. Under this OIC, the Corporation was further directed to provide the funding required for its role under section 1 from the Yukon Development Fund, and to not assume a debt or equity role in the ownership or operation of any gas distribution utility within the City of Whitehorse.

The Government of Yukon also appointed directors to the Board of Yukon Development Corporation during 2002 by issuing the following Orders-in-Council pursuant to section 7 of the *Yukon Development Corporation Act:*

- Order-in-Council 2002/215 appoints Shirley Abercrombie as a director for a term ending October 9, 2005;





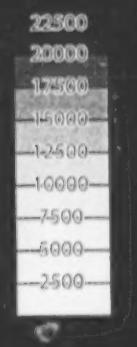
Riverdale

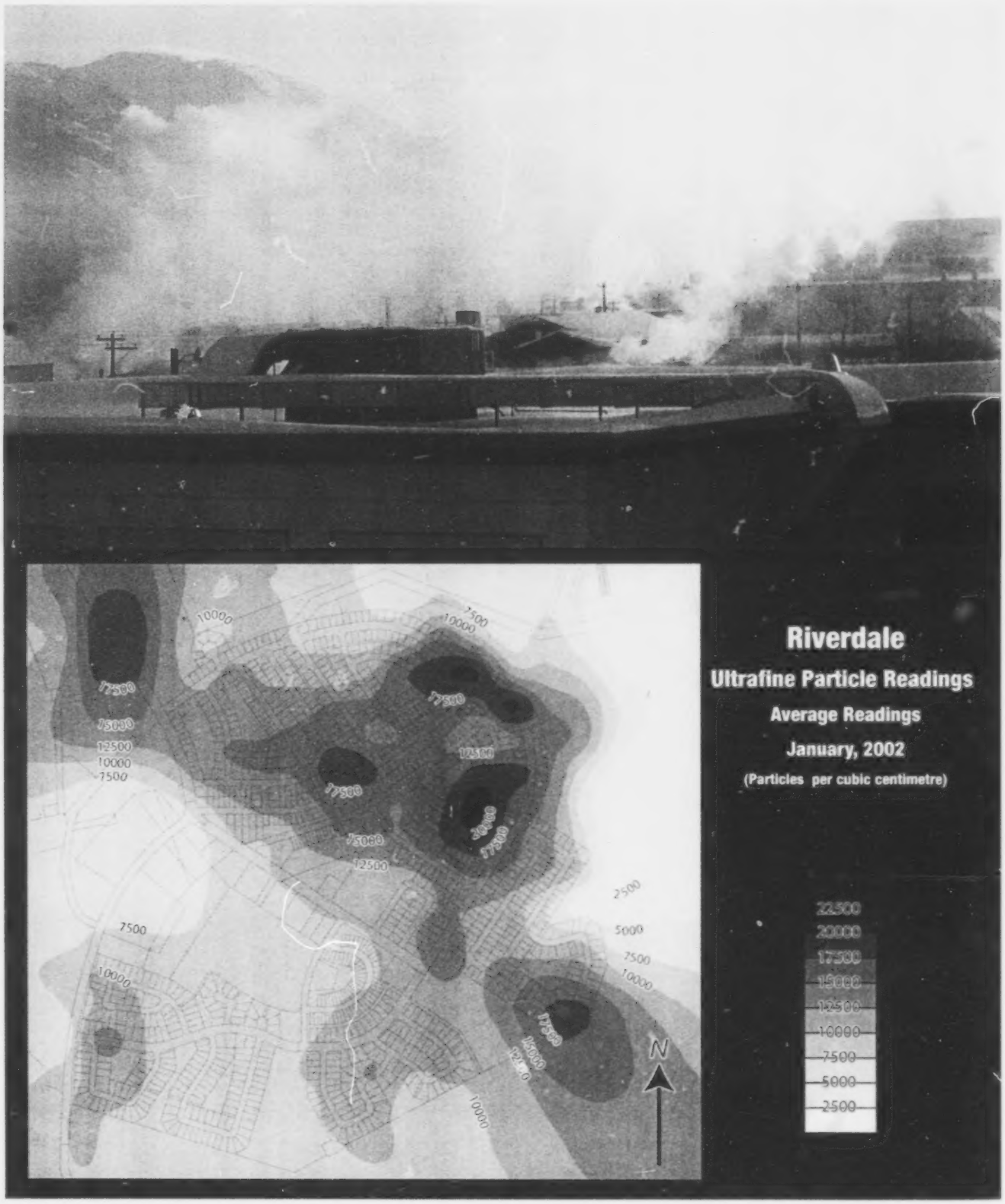
Ultrafine Particle Readings

Average Readings

January, 2002

(Particles per cubic centimetre)

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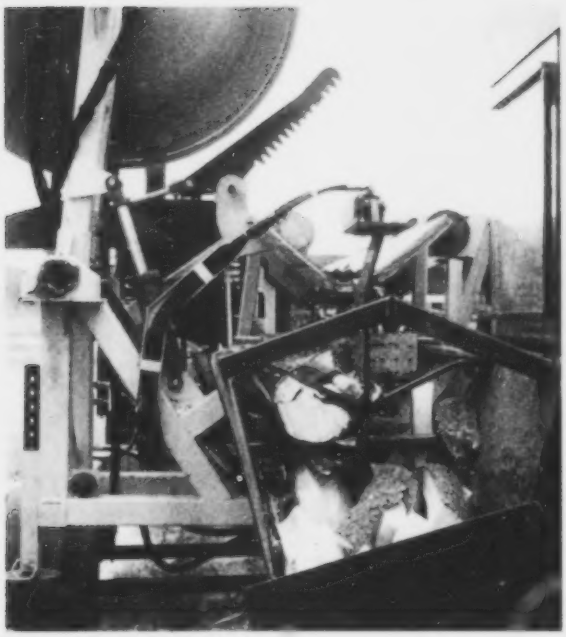

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- Order-in-Council 2002/215 appoints Shirley Abercrombie as a director for a term ending October 9, 2005;

- Order-in-Council 2002/102 appoints Lorne Norman Austring as chair for a term ending September 3, 2004; and revokes the appointment of Lorne Norman Austring as a member, and Angus Robertson as the chair of the Yukon Development Corporation.

Energy solutions to reduce the cost of living, doing business and providing public programs and services

In 2002, the Yukon Development Corporation created and supported several innovative programs to catalyze the introduction of new energy technologies.

The Corporation partnered with the federal Department of Natural Resources to provide the Fridge Exchange program, which provided an incentive for householders to exchange old inefficient refrigerators with best-in-class, Energy Star© rated appliances – and thereby create ongoing energy cost-savings as well as reduced greenhouse gas emissions.

The "Wood Energy" and "Burn it Smart" initiatives provided information and focused incentives to householders to burn wood using better methods and technology to increase safety, efficiency, and air quality.

We also focused efforts to continue to shift the market toward integrated energy solutions through the Green Building Design Initiative, which included hands-on courses, energy modeling, workshops, a design charrette and finally a competition. Further to the competition, the YDC, through its subsidiary the Energy Solutions Centre set up a green and appropriate northern design service. The YDC also initiated feasibility and engineering analysis of solar wall applications and ground-source energy demonstration projects using heat pump technology.

With its partners, Yukon Development Corporation continued to provide household and commercial energy management programs, including renewable power sales, as well as household and commercial energy audits.

Throughout 2002, the Yukon Development Corporation created partnerships for effectiveness and capacity-building. Examples are:

- Our First Nations community energy management service, which provides Yukon First Nation communities with an energy specialist to help them reduce their reliance on fossil fuels, and to reduce their greenhouse gas emissions;
- A cooperation agreement with the Association of Professional Engineers of the Yukon to assist with professional development for engineers, and;
- Various technical training courses in air quality testing, proper wood stove installation for private, First Nation, government regulatory bodies, and the public provided in cooperation with other partners;
- Created partnership with the Yukon Conservation Society, Yukon Energy, and others for delivery of the House Calls Energy Efficiency Program. YDC, along with these partners, received a national energy efficiency "outreach" award for this program; and,
- Started the design of a more comprehensive housing energy audit process in cooperation with the Yukon Housing Corporation. This new process would incorporate heating systems, appliances, and renewable energy technologies.

Planning today for future energy infrastructure

In 2002, Yukon Development Corporation, through its subsidiary Yukon Energy Corporation, made significant progress on the construction of the Mayo/Dawson transmission corridor. Work continues to identify future energy corridors and electrical transmission lines in order to reduce utility costs, reduce greenhouse gas emissions from diesel generation of electricity, provide more reliable power, and to create new business opportunities along the new transmission corridor(s).

Other developments of future infrastructure include continuing efforts to assess and develop where appropriate Yukon's renewable energy resources through wind energy monitoring, micro-hydro and geo-thermal resource assessment within community boundaries.

Related to these efforts, we have continued to provide input to regional land use, protected areas and sensitive habitat planning processes.

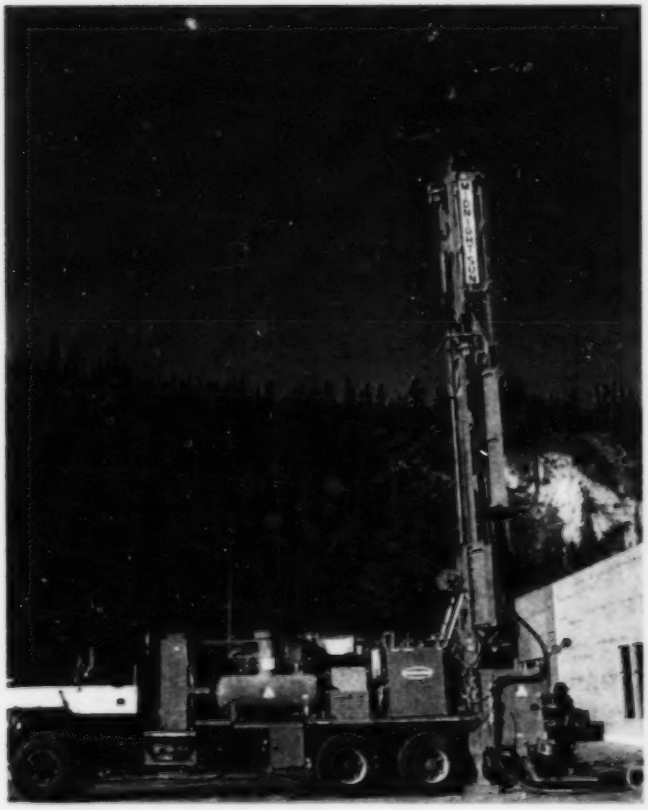
Leadership, governance and accountability

This year, the board of directors prepared the 2002-2006 corporate plan following a multi-stage research and planning process. The corporation also developed its first accountability plan, which was subsequently approved by the Yukon government and the Legislature. In addition, we expanded our commitment to improving corporate governance at the board level by providing training workshops for the Audit Committee by the Auditor General, adopting a code of practice for the corporation and its subsidiaries, substantially completing a new director orientation handbook, and developing a specific work plan on board governance practices.

During the year, the corporation was involved in various research and planning projects designed to provide a solid foundation for future programs and initiatives. Examples of research and planning undertaken this year are:

- an assessment of household energy end-uses;
- a project initiated with NRCan to establish best practices guidelines for off-grid renewable energy technologies;
- significant investment in public awareness and feedback at business, First Nation and community career, mining, Yukon energy and climate change fairs and events throughout the territory.

In recognition of our efforts, the Yukon Development Corporation received national recognition from a variety of sources throughout the year, including the following:



For the second consecutive year, Yukon Energy, in partnership with the Yukon Development Corporation and the Energy Solutions Centre, received the Gold Level Reporter status by the Voluntary Challenge Registry (VCR Inc.) for tracking, reporting and reducing carbon dioxide emissions. VCR Inc. is a non-profit partnership between industry and governments across Canada. It promotes and assesses the effectiveness of the voluntary approach to address climate change.

YDC also received an "A" grade from the Canadian Energy Efficiency Alliance Award of Excellence in their national report card on energy efficiency.

COMPREHENSIVE PERFORMANCE MEASURES

The corporation has adopted a modified "triple e" (energy, environment, economy) bottom line to measure the results it is trying to achieve. This builds on energy industry standards and best practices in integrated and sustainable development performance management. It provides a consolidated assessment of results achieved by Yukon Development Corporation's family of companies.

Some performance indicators are not within the sole control of the corporation. They may be difficult to measure, particularly with respect to isolating the corporation's contribution from other considerations. These measures will be refined over time as experience is gained and research work is completed.

Each of the corporate strategies, and the investments, programs and activities undertaken in support of them, contribute directly to one or more of the performance objectives and targets established for 2002 to 2006. Annual business plans set performance objectives and concrete quantitative and qualitative targets for specific investments, programs, projects and activities. During 2002, all targets were met or exceeded.

The factors tracked, with intended outcomes, are summarized below.

Energy factors
Electrical rate and bill stability: Smaller, more predictable changes for consumers.

Efficiency: Utility revenue increases and cost-savings contributing to long-term rate stability; energy cost-savings for consumers.

Renewable energy supply: Energy self-sufficiency and import substitution.

Environment factors
Greenhouse gas emissions: Reductions and avoidance in tonnes of CO_2.

Renewable energy reserves: Energy security and timely supply for emerging markets.

Economy factors
Energy infrastructure: Safe, reliable electrical system; ability to optimize opportunities to generate energy on a distributed basis, supply energy to markets, and facilitate regional economic development.

Corporate return on investments: Achieve mandate on self-financing basis and provide shareholder return.

Future effectiveness factors
Research and development: Consumer choice; effective and efficient technologies for northern consumer and energy supply applications; new partnerships and joint ventures.

Environmental stewardship: Minimize impact of energy supply and end use on the environment; facilitate future sustainable energy developments.

YUKON ENERGY PUBLICATIONS CURRENTLY AVAILABLE

- The Winds of Change: The story of wind generation in the Yukon (a 15-minute video is also available)
- The Power of Water: The story of hydropower in the Yukon
- The Lure and Lore of Wood: A look at the Yukon's natural fuel
- PeoplePower (profiles of Yukoners working in energy-related occupations)
- Pushing the Envelope: Making Yukon homes green
- Yukon Green Building Design Competition: Final report on the process
- 2002 Progress Report for Canada's Climate Change Voluntary Challenge and Registry Program

Environmental performance and stewardship

YDC's board of directors has established a five-year corporate plan and annually approves specific business plans, including objectives and priorities. These plans include corporate performance indicators that also establish specific greenhouse gas emissions targets. Senior managers monitor the planning and implementation of greenhouse gas reduction initiatives as part of the established routine, and ensure we are on track as we go through the processes of developing our corporate plan, annual business plan and quarterly reporting to the board of directors. As a contribution to business planning and target setting, Yukon Development Corporation's Action Plan for Reducing Greenhouse Gas Emissions (submitted to the VCR) is reviewed and amended based on forecast energy demand, supply options and verification of emissions reductions.

This process for the 2002 progress report resulted in a doubling of our target. The Yukon Development Corporation commitment has now increased from a 6% to 12% reduction from our 1990 emissions (i.e. from 34,960 tonnes $C0_2e$ by 2010). This target is based on a four-year average from 2008 to 2012.

For the second year, YDC provided financial support for the Freshwater Fisheries Cooperation Agreement, and, through that agreement, provided support for the international lake trout symposium in Whitehorse in 2002.

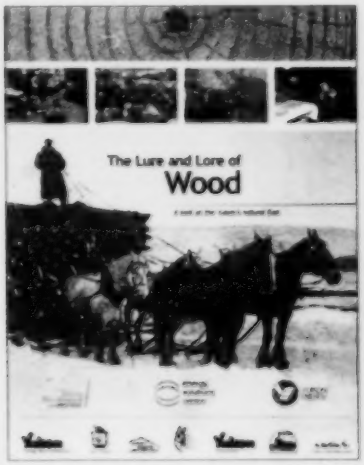
In addition, during the year, YDC laid the groundwork for various small-scale environmental initiatives including an environmental stewardship centre. We also continued to coordinate the related activities of the three Yukon energy solutions companies.

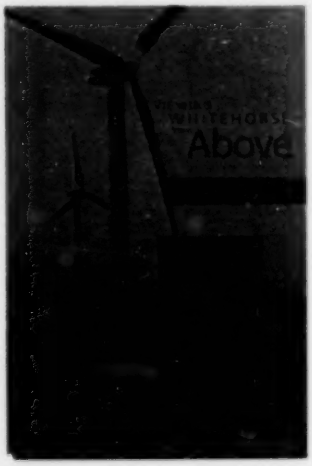
Yukon Development Corporation produced several new publications during 2002: "The Lure and Lore of Wood" — a discussion about wood energy, and "Viewing Whitehorse from Above" — a guide to Haeckel Hill.

Rate Stabilization Fund

The Rate Stabilization Fund (RSF) was originally created in November 1998 through an Order-in-Council pursuant to the *Yukon Development Corporation Act*. It is funded by a $10 million contribution from the Yukon government and was scheduled to end March 31, 2002. Annual reporting of the results of the program is a component of the requirements laid out in the OIC establishing the RSF.

Before it expired, the government announced an extension of the RSF until March 31, 2005. The current level of subsidy will be continued and managed within a $12 million cap paid by a $3 million grant from the Yukon government, the balance of the existing RSF program and corporation resources.





The RSF subsidizes residential electricity bills to a maximum of nine percent above January 1997 rates for the first 1,000 kilowatt hours per month in the winter. In summer, the subsidy decreases on a sliding scale beginning at 1,000 kilowatt hours until it is eliminated at 1,500 kilowatt hours a month.

General service electricity bills, which include business and municipal consumers, are subsidized for the first 2,000 kilowatt hours per month in winter. In summer, the subsidy gradually declines beginning at 2,000 kilowatt hours and ends at 3,000 kilowatt hours.

Effective April 1st Rider F (for diesel fuel use) was reduced by 3.3 cents lowering bills in excess of 1000 kWh/month residential and 2000 kWh/month general service, commercial and municipal and all federal and territorial government electrical bills regardless of level of consumption

In 2002, $3,391,000 was spent on the RSF in the territory. The number of non-government residential customers receiving the subsidy ranged from a low of 10,963 in the second quarter to a high of 12,543 in the fourth quarter. The number of commercial consumers who benefited varied from 1,601 in the second quarter to 2,092 in the fourth quarter while similar figures for municipal facilities were a low of 141 in the second quarter and a high of 214 in the first quarter.

The balance of the Rate Stabilization Fund on December 31, 2002, including investment income, was $2,356,000 after the infusion of $3,000,000 from YTG during 2002.

First Nations relations

This year, YDC awarded the first cycle of the new Tr'ondëk Hwëch'in and the Nacho Nyak Dun scholarship programs, as well as the second cycle of the Yukon Energy Scholarship Program.

The Corporation also contributed to the "ice man" research and a related educational publication sponsored by four First Nations.

In addition, we initiated discussions with the Council of Yukon First Nations and the

CORPORATION PRIORITIES

Consistent with the Yukon Development Corporation Act, Yukon government energy policy and priorities and the Yukon Development strategic plan, the corporation focuses on eight broad areas:

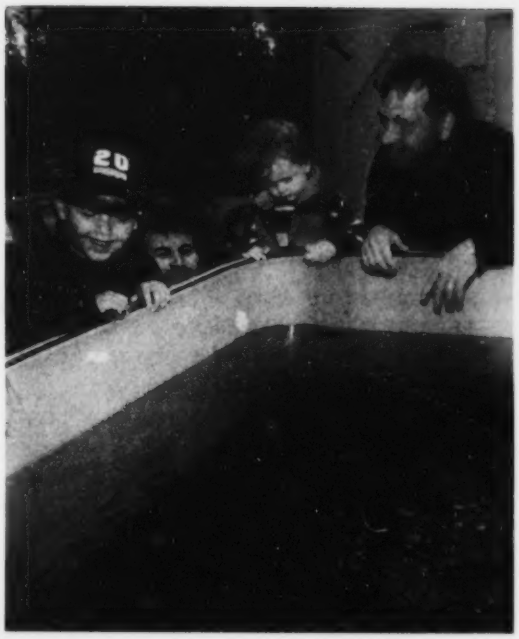
- planning and supporting infrastructure development that enables a reliable supply of cost-effective energy, focusing primarily on electrical power and related aspects;
- developing renewable energy and technology alternatives, including displacement of diesel-electric generation, while promoting efficient use of energy, including but not limited to delivery of the green power, wind research and development, and energy efficiency initiatives;
- supporting long-term energy price stabilization and cost-savings, primarily through investments, incentives, integrated solutions and innovation, rather than subsidies;
- spearheading coordination of federal, Yukon government, and corporation energy-related programs and services at the territorial level;
- contributing to Yukon environmental goals respecting climate change by reducing greenhouse gas emissions, and sustainable development through environmental stewardship;
- working with Yukon First Nations and their development corporations on economic opportunities and the implementation of land claim agreements;
- addressing other prudent opportunities in the energy sector that support cost-effective energy choices for Yukon consumers; and,
- in the corporation's capacity as sole shareholder of Yukon Energy, making every feasible effort to support Yukon Energy's ability to provide reliable, cost-effective power to Yukon ratepayers.

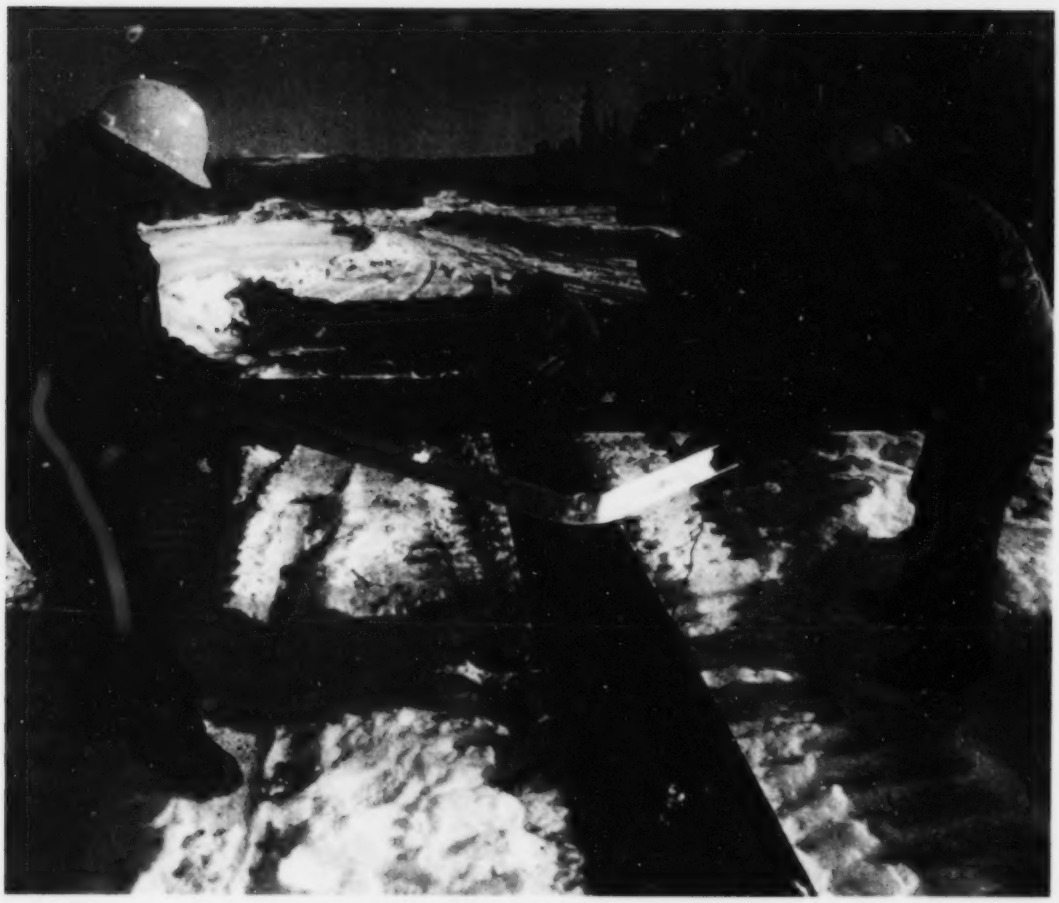
ICE PATCH

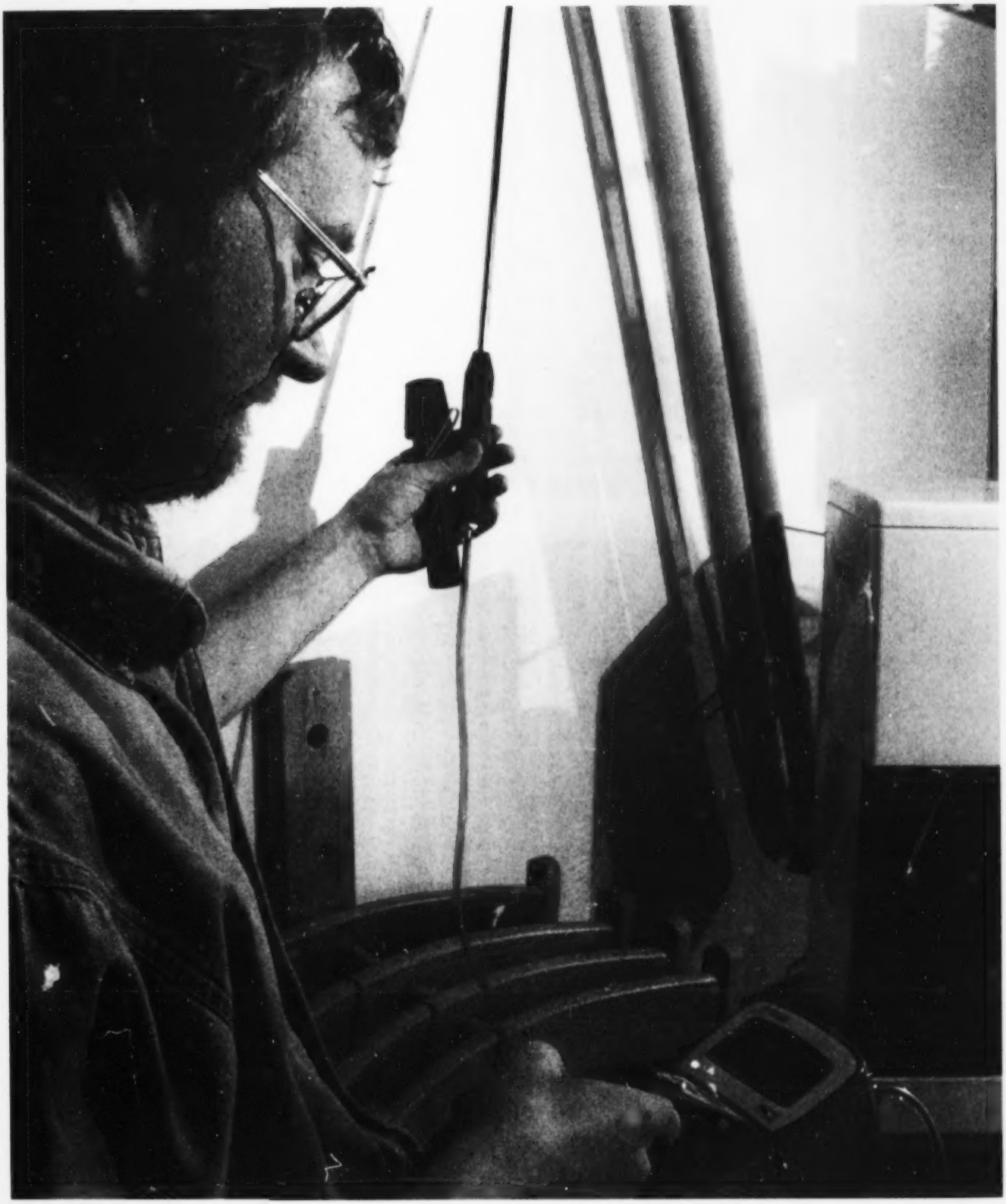
Northern Tutchone Council in an effort to towards producing a coordinated climate change and energy solutions initiative with First Nations.

Yukon Development also continued to provide a First Nations community energy management service through the Energy Solutions Centre, which provided a higher profile with a number of First Nations.

In cooperation with the Champagne and Aishihik First Nations, the corporation installed a community wind monitoring station at Aishihik. And, as part of Fish Ladder and Hatchery redevelopment plans, we organized a pilot with the Kwanlin Dün First Nation for fish culturist training and interpreting activities for implementation in the first quarter of 2003 at the Whitehorse Rapids Fish hatchery.







BOARD OF DIRECTORS
& staff

Yukon Development Corporation
P.O. Box 2703, Whitehorse, Yukon Y1A 2C6
phone: (867) 393-7069, fax: (867) 393-7071
e-mail: darlene.morgan@ydc.yk.ca

Board of Directors

Chair
Lorne Austring

Directors
Shirley Abercrombie
Martin Allen
Fred Blanchard
Ed Chambers
Carl Charlie
Pat Irvin

Officers

President
Angus Robertston

Chief Executive Officer
Duncan Sinclair

Chief Financial Officer
Collin Young

Corporate Secretary
Rod Snow

Assistant Corporate Secretary
Darlene Morgan

Assistant General Manager
Don Flinn

Committees

AUDIT

Chair
Pat Irvin

Members
Lorne Austring
Carl Charlie
Duncan Sinclair

BOARD ORIENTATION

Chair
Fred Blanchard

Member
Duncan Sinclair

Auditor

Auditor General of Canada

Lorne Austring, Chair and Director

Mr. Austring is a Whitehorse lawyer and partner in the law firm of Austring, Fendrick, Fairman & Parkkari where he practices corporate and commercial law. He has been on the board since September 2001 and was appointed chair in May 2002.

Shirley Abercrombie, Director

Ms. Abercrombie has extensive field experience in the natural resource sector and has worked for both industry and government in a number of capacities. She is currently managing the Integrated Resource Policy unit within the Yukon's Department of Energy, Mines and Resources and has been a board member since November 2002.

Martin Allen, Director

Mr. Allen is the owner of L & T Holdings, a Yukon electrical business. He resides in Whitehorse and has worked in the Yukon in the electrical field for over 30 years both in the commercial and private sector. He was appointed to the board in August 2002.

Fred Blanchard, Director

Mr. Blanchard is a member of the Little Salmon/ Carmacks First Nation and plays an important role in promoting energy efficiency programs within Whitehorse and the rural communities. He has been on the board since August 1993.

Ed Chambers, Director

Mr. Chambers is a member of the Champagne and Aishihik First Nations and vice-chair of the board of directors. He resides in Champagne and was appointed a director in February 1991 at the recommendation of the Council of Yukon First Nations. Ed brings considerable experience to board discussions as its longest serving member and former chair of the audit committee.

Carl Charlie, Director

Mr. Charlie was appointed to the board of directors in October 1999. He is a member and former councillor of the Vuntut Gwitchin First Nation, and has extensive experience in land use planning and a strong interest in assisting First Nation communities achieve greater energy sustainability and independence.

Pat Irvin, Director

Mr. Irvin has been a resident of the Yukon for over 25 years. He is the president of Watsonlakehotels.com, a corporation that operates three full service hotels in Watson Lake. He has been on the board of directors since November 1995 and offers a wealth of experience on business and financial matters. He chairs the audit committee.

Angus Robertson, President

Mr. Robertson is also the deputy minister of the Department of Energy, Mines and Resources.

Duncan Sinclair, Chief Executive Officer

Mr. Sinclair is also the president of the Energy Solutions Centre Inc.

Gartner Lee Limited

AUDITED FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Yukon Development Corporation are the responsibility of management. And have been prepared in accordance with Canadian generally accepted accounting principles consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates and approximations, which have been made using careful judgement. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, the careful selection and training of qualified personnel, and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The financial statements have been examined by an independent external auditor. The external auditor's responsibility is to express an opinion on whether the consolidated financial statements, in all material respects, fairly present the Corporation's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. In addition, the external auditor reports on whether proper books of account have been kept by the Corporation, the consolidated financial statements are in agreement therewith, and transactions, in all significant respects, are in accordance with the *Financial Administration Act* as applicable, the *Yukon Development Corporation Act* and the bylaws of the Corporation. The Auditor's Report, which follows, outlines the scope of this examination and the auditor's opinion.

The Corporation's Board of Directors, through its Audit and Finance Committee, oversees management's responsibilities for financial reporting. The Audit and Finance Committee meets with management and the independent external auditor to discuss auditing and financial matters, to gain assurance that management is carrying out its responsibilities and to review and approve the consolidated financial statements. The auditor has full and free access to the Audit and Finance Committee, with and without the presence of management.

Duncan Sinclair
Chief Executive Officer

Collin Young
Chief Financial Officer

Whitehorse, Yukon
May 2, 2003

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

The Honourable Archie Lang
Minister Responsible for the Yukon Development Corporation

I have audited the consolidated balance sheet of the Yukon Development Corporation as at December 31, 2002 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Yukon Development Corporation Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation and by its wholly-owned subsidiaries and the consolidated financial statements are in agreement therewith and the transactions of the Corporation and of its wholly-owned subsidiaries that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *Yukon Development Corporation Act* and the bylaws of the Corporation.

Ronald C. Thompson, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 2, 2003

Yukon Development Corporation
CONSOLIDATED BALANCE SHEET

As at December 31, 2002 (in thousands of dollars)

	2002	2001
ASSETS		
Current assets		
Cash and cash equivalents (note 3)	$ 7,895	$ 25,867
Accounts receivable (note 4)	4,695	7,006
Inventories	2,360	2,272
Prepaid expenses	715	452
Current portion of investments (note 5)	298	254
	15,963	35,851
Long-term receivables		
Mortgages receivable	33	39
	33	39
Capital assets (note 7)	153,602	131,369
Deferred charges (note 8)	6,745	4,777
Investments (note 5)	3,810	4,082
Reserve for uninsured losses (note 9)	346	291
Funds held in trust (note 6)	4,111	1,405
Rate stabilization fund (note 10)	2,356	2,663
Diesel Contingency Fund (note 11)	734	682
	$ 187,700	$ 181,159
LIABILITIES		
Current liabilities		
Accounts payable	$ 6,852	$ 2,881
Current portion of long-term debt (note 12)	1,052	972
Interest payable	14	15
Regulatory liabilities (note 13)	2,169	1,804
	10,087	5,672
Long-term debt (note 12)	42,439	43,416
Deferred revenues (note 14)	14,241	15,371
Reserve for future removal and site restoration costs	4,875	5,041
Rate stabilization fund (note 10)	2,356	2,663
Diesel Contingency Fund (note 11)	734	682
	74,732	72,845
EQUITY		
Contributed capital	41,501	41,501
Retained earnings	71,467	66,813
	112,968	108,314
	$ 187,700	$ 181,159

Contingencies and commitments (note 16)

The accompanying notes are an integral part of the financial statements.

Approved by the Board:

Chair

Director

Yukon Development Corporation
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended December 31, 2002 (in thousands of dollars)

	2002	2001
Revenue		
Sales of power	$ 23,786	$ 22,242
Contributions - Yukon	808	141
Finance income	529	559
Interest income	456	1,141
Other	386	571
Contributions - Canada	237	289
	26,202	24,943
Operating expenses		
Board, corporate stewardship and administration	7,006	5,785
Operations and maintenance	5,288	5,208
Interest on long-term debt	1,227	1,765
Energy sector development	946	335
Energy market transformation	928	446
Corporate, environmental and First Nation initiatives	183	141
Amortization of capital assets	5,442	5,194
Amortization of deferred charges	478	452
Provision for uninsured losses	50	50
	21,548	19,376
Net income	4,654	5,567
Retained earnings, beginning of year	66,813	61,246
Retained earnings, end of year	$ 71,467	$ 66,813

The accompanying notes are an integral part of the financial statements.

Yukon Development Corporation
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2002 (in thousands of dollars)

	2002	2001
Cash flows from operating activities		
Cash receipts from customers	$ 26,401	$ 27,884
Cash paid to employees and suppliers	(10,417)	(12,016)
Interest paid	(1,227)	(1,765)
Interest received	982	1,700
	15,739	15,803
Cash flows from investing activities		
Acquisitions of capital assets	(28,608)	(11,165)
Long-term investments	234	322
Funds held in trust	(2,661)	(1,450)
Deferred charges	(1,779)	(1,032)
	(32,814)	(13,325)
Cash flows from financing activities		
Repayment of long-term debt	(897)	(845)
	(897)	(845)
(Decrease) increase in cash position	(17,972)	1,633
Cash position, beginning of year	25,867	24,234
Cash position, end of year	$ 7,895	$ 25,867
Represented by:		
Cash and short-term investments	3,820	21,424
Restricted funds	4,075	4,443
	$ 7,895	$ 25,867

The accompanying notes are an integral part of the financial statements.

1. AUTHORITY, OBJECTIVES AND OPERATIONS

Yukon Development Corporation (the Corporation) was originally established under the *Yukon Development Corporation Act* to participate with the private sector in the economic development of the Yukon, to make strategic investments to the benefit of the territory and to acquire and operate the assets of Northern Canada Power Commission (NCPC) in the Yukon.

In 1993, the Corporation's mandate was changed to restrict its new initiatives to energy-related activities designed to promote the economic development of the Yukon.

The Corporation's wholly owned subsidiaries, Yukon Energy Corporation and Energy Solutions Centre Inc., were incorporated under the Yukon *Business Corporations Act*. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon and is regulated by the Yukon Utilities Board. The mandate of Energy Solutions Centre Inc. is to engage Yukoners in the challenge and potential of energy efficiency and green power as solutions to climate change by mobilizing individuals, businesses, communities and First Nations to implement projects that will reduce greenhouse gas emissions in the Yukon.

Yukon Energy Corporation and Energy Solutions Centre Inc. are exempt from the *Financial Administration Act* (Yukon).

2. SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation

The consolidated financial statements of Yukon Development Corporation have been prepared by management and conform to Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of Yukon Development Corporation and its wholly owned subsidiaries, Yukon Energy Corporation and Energy Solutions Centre Inc. The consolidated financial statements reflect Canadian generally accepted accounting principles and practices of regulatory bodies. All significant inter-company transactions and balances have been eliminated on consolidation. The regulatory accounting practices adopted by Yukon Energy Corporation may differ from the accounting practices otherwise applied in unregulated enterprises. In particular, the timing of Yukon Energy Corporation's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using generally accepted accounting principles for a non-regulated entity.

Water regulation

The Yukon Territory Water Board decides if Yukon Energy Corporation will have water licences for the purposes of operating dams for hydro generation and the duration of the licenses. The licenses will indicate terms and conditions for the operation of the hydro dams.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Rate regulation

Yukon Energy Corporation is regulated by both the Yukon Territory Water Board, pursuant to the *Yukon Waters Act* (Canada) and the Yukon Utilities Board, pursuant to the *Public Utilities Act* (Yukon). The regulatory process begins when Yukon Energy Corporation makes a General Rate Application for its proposed electricity rate changes over the next one or two forecast years. The Yukon Utilities Board ("YUB") must ensure that its decision, which fixes electricity rates, complies with all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon Government through Orders-In-Council that specify how the interests of the customer and the utility are to be balanced.

The YUB follows a two-stage decision process. In the first stage, the total costs that the utility will incur by making electricity available to its customers over the immediate future are approved. The approval of these costs determines the total revenues the utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment;
- the return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

In the second stage, the YUB approves how the revenue will be raised. This stage determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided by a cost of service study, which allocates utility costs to the various customer classes on the basis of appropriate costing principles. The determination of rates is also affected by Orders-In-Council issued by the Yukon Cabinet, which give specific government direction to the Board.

Normally, Yukon Energy Corporation applies for rates in advance of the applicable years. A hearing will take place and rates are approved as final as a result. Interim hearings and interim rates may be used to deal with unforeseen circumstances.

Inventories

Inventories, consisting of materials, supplies and diesel fuel are recorded at the lower of average cost or replacement value.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets are stated at cost. Cost of self-constructed assets includes materials, direct and indirect labour, an appropriate allocation of administrative overhead and finance charges capitalized during construction, less accumulated amortization. Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	40 to 65 years
Diesel plants	15 to 25 years
Transmission	25 to 35 years
Distribution	20 to 30 years
Buildings	20 to 30 years
Financial information system	5 to 10 years
Transportation	8 to 14 years
Other equipment	5 to 15 years

Yukon Energy Corporation capitalizes development studies and an allowance for funds used during construction ("AFUDC") at a rate approved by the Yukon Utilities Board for debt and equity funds.

Certain additions are made with the assistance of cash contributions where the estimated revenue is less than the cost of providing service or where special equipment is needed to meet customers' specific requirements. These contributions are amortized to income on the same basis as the asset to which they relate and are offset against the amortization charge. Capital assets are disclosed net of unamortized contributions. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

Costs related to water license renewals are deferred and amortized to earnings on a straight-line basis over the term of the existing license plus the expected term of the renewed license, which is generally a long-term arrangement of 25 years.

Planning and study costs related to research projects and operations are expensed as incurred. Costs related to potential capital development projects which are abandoned are amortized to earnings on a straight-line basis over five years starting in the year that the project is abandoned.

General equipment overhaul expenditures in excess of $250,000 are deferred and amortized to earnings on a straight-line basis over five years.

Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

The Corporation's investments are recorded at the lower of cost or net realizable value.

Reserve for uninsured losses

Yukon Energy Corporation maintains a reserve for uninsured losses. An appropriation to the reserve of $50,000 is made annually as a charge to expenses. Uninsured losses are charged directly against the reserve.

Reserve for future removal and site restoration cost

The reserve is calculated based on the estimated cost of demolishing, dismantling, tearing down, or otherwise disposing of the asset, net of expected recoveries. These estimated costs are being provided for over the estimated useful life of the asset on a straight-line basis.

Revenue recognition

Revenue from the sale of power is recognized when electricity is delivered.

Contribution – Canada

Revenue from contribution agreements with Canada is recognized on the accrual basis, when the services are performed.

Contribution – Yukon

In 1999, the Yukon Government contributed funds to the corporation, as part of the government's commitment to sustainable energy development. The contributions have been recorded as deferred revenue. Revenue is recognized when eligible expenses are incurred.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, the reserve for future removal and site restoration costs and long-term receivables. Actual results may differ from the estimates.

Financial instruments

The Corporation's consolidated financial instruments consist of accounts receivable, investments, long-term receivables and accounts payable, interest payable and long-term debt. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency, or credit risks arising from these financial instruments. Unless otherwise noted, the fair values of these financial instruments approximate their carrying values.

3. CASH AND CASH EQUIVALENTS

	2002	2001
Bank balance	$ 2,393	$ 11,306
Short-term investments	4,340	10,118
Restricted funds	4,075	4,443
Bank indebtedness	(2,913)	–
	$ 7,895	$ 25,867

Short-term investments and restricted funds are monies invested in a pooled money market fund. The fixed-term securities held in the fund have an average maturity less than 90 days. Earnings are distributed monthly on a pro-rata share of the total fund. Annual return on investment for 2002 was 2.96% (2001 – 2.64%).

Yukon Energy Corporation has a demand line of credit facility with TD Canada Trust for up to $10,000,000 at bank prime. The Yukon Government guarantees the overdraft facility. At year end the Yukon Energy Corporation borrowed $1,100,000 on the credit facility.

4. ACCOUNTS RECEIVABLE

	2002	2001
Retail energy sales	$ 2,598	$ 2,235
Wholesale energy sales	1,704	1,809
Other	254	587
Rate adjustment receivable	124	1,144
Fire insurance claim	15	1,231
	$ 4,695	$ 7,006

Accounts receivable includes $2,528,000 (2001 – $2,446,000) due from The Yukon Electrical Company Limited. Yukon Energy Corporation's sales to The Yukon Electrical Company Limited were $15,288,000 (2001 – $14,981,000) but, due to the wholesale nature of the sales, Yukon Energy Corporation is not economically dependent on it.

5. INVESTMENTS

The Corporation's investments are summarized as follows:

	2002	2001
Direct financing lease	$ 4,082	$ 4,336
Leases receivable, net of deferred finance income	26	–
	4,108	4,336
Less: current portion	298	254
	$ 3,810	$ 4,082

In 1990, the Corporation acquired the building known as Old Yukon College from the Yukon Government for a nominal fee. The building was renovated and is being leased back to the Government for a period of 20 years. At the end of the lease term, in 2011, the Government may purchase the building from the Corporation for a nominal fee. Interest from the lease is recognized as finance income.

6. FUNDS HELD IN TRUST

	2002	2001
Construction contract holdbacks	$ 3,479	$ 789
Energy infrastructure investment	632	616
	$ 4,111	$ 1,405

Construction contract holdbacks represent holdbacks from payments made to the general contractor on the Mayo to Dawson transmission line project. These will be held by Yukon Energy Corporation pending satisfactory completion of the project, at which time the monies will be released.

Energy infrastructure investment represents monies held by Yukon Development Corporation on behalf of a Yukon First Nation for investment in energy infrastructure. The ultimate use of these funds is subject to the finalization of investment agreements.

An offsetting liability is recorded in accounts payable and is equal to the balance of funds held in trust.

7. CAPITAL ASSETS

	Cost	Accumulated amortization	2002 Net book value	2001 Net book value
Hydro-electric and diesel plants	$ 129,302	$ 35,430	$ 93,872	$ 91,842
Transmission	19,808	6,974	12,834	13,065
Distribution	10,771	3,787	6,984	7,122
Buildings and other equipment	13,580	4,131	9,449	8,840
Financial information system	1,306	550	756	951
Transportation	1,276	278	998	1,019
Land	676	–	676	110
Construction-in-progress	30,426	–	30,426	10,522
	207,145	**51,150**	**155,995**	133,471
Less: Contributions for plant extensions	3,465	1,072	2,393	2,102
	$ 203,680	**$ 50,078**	**$ 153,602**	$ 131,369

The above amounts exclude the costs of assets which were damaged and destroyed in the October 30, 1997 fire at the Whitehorse Rapids Generating Facility. The costs of the assets used to reconstruct the facility equalled $13,395,000 and are included in the above capital assets. $11,604,000 representing the insurance proceeds received to cover the cost of reconstruction is recorded as deferred revenue (see note 14). The difference of $1,791,000 (2001 – $1,791,000) represents the value of betterments, which improved the facility beyond the value replaced by the insurance proceeds.

8. DEFERRED CHARGES

	Cost	Accumulated amortization	2002 Net book value	2001 Net book value
Relicensing	$ 6,830	$ 1,094	$ 5,736	$ 3,947
Feasibility studies	637	115	522	291
Downsizing costs	320	72	248	272
Generating equipment overhauls	348	278	70	139
Dam safety review	92	55	37	55
Diesel fuel price adjustment	132	–	132	73
	$ 8,359	**$ 1,614**	**$ 6,745**	$ 4,777

Deferred charges have been deferred and amortized in accordance with decisions of the Yukon Utilities Board.

Yukon Energy Corporation is authorized by Order-In-Council 1995/90 to adjust its electrical rates to reflect fluctuations in the price of diesel fuel without the requirement for specific application to and approval of the Yukon Utilities Board. Fluctuations in diesel fuel expense are deferred and amortized over future designated periods prescribed by the YUB, through revised rates charged to customers.

9. RESERVE FOR UNINSURED LOSSES

	2002	2001
Balance, beginning of year	$ 291	$ 316
Provision	(50)	(50)
Losses incurred		
Weather related	72	–
Asset replacement	33	–
Forest fire	–	25
Balance, end of year	**$ 346**	$ 291

Yukon Energy Corporation's target balance for the reserve for uninsured losses is based on Yukon Energy Corporation's past experience. Yukon Energy Corporation will be applying to the Yukon Utilities Board for approval to increase the reserve.

10. RATE STABILIZATION FUND

The Rate Stabilization Fund was created in 1999 with a $10,000,000 contribution from the Government of Yukon, with a mandate to support stable and affordable electrical rates to March 31, 2002. The goal of the Rate Stabilization Fund is to protect all non-government residential, general service (commercial) and municipal ratepayers by minimizing the impact of rate increases over this period.

On October 17, 2001, the Yukon Government announced the continuation of the Rate Stabilization Fund until 2005 with Yukon Development Corporation required by OIC 2001/147 to contribute up to $7,800,000 of internally generated funds before April 1, 2005.

	2002	2001
Balance, beginning of year	$ 2,663	$ 6,054
Capital contribution	3,000	–
Interest	84	218
Payments	(3,391)	(3,609)
Closing balance	**$ 2,356**	**$ 2,663**

11. DIESEL CONTINGENCY FUND

	2002	2001
Opening balance	$ 682	$ (61)
Interest	52	(1)
Whitehorse Rapids Generating Facility fire adjustment	–	744
Closing balance	**$ 734**	$ 682

The Yukon Utilities Board established the Diesel Contingency Fund with Board Order 1996-6. The Fund is administered by Yukon Energy Corporation on behalf of the Yukon Utilities Board, and as such is recorded as a trust asset and a trust liability.

The Whitehorse Rapids Generating Facility fire adjustment is the Corporation's calculation of the impact of the October 1997 fire to the Diesel Contingency Fund in 1999.

12. LONG-TERM DEBT

The Corporation's long-term debt is summarized as follows:

	2002	2001
Government of Canada		
$40,000,000 flexible term note bearing interest at 7% repayable in annual principal instalments of $1,000,000 plus interest, with the balance due January 1, 2028	$ 29,057	$ 29,302
Great West Life		
$5,750,000 mortgage bearing interest at 11.5%, repayable in monthly instalments of $60,000 interest and principal with the final payment due July 2011	4,084	4,332
TD Canada Trust		
$12,400,000 term note bearing interest at 7.94% payable in monthly instalments of $102,000 interest and principal, with the balance of $67,000 due October 31, 2016. The note is guaranteed by the Yukon Government.	10,350	10,754
	43,491	44,388
Less: current portion	1,052	972
	$ 42,439	$ 43,416

Government of Canada note

The proceeds of the Government of Canada flexible term note were part of the consideration used in 1987 to acquire the assets of Northern Canada Power Commission. The note is collateralized by a mortgage against the acquired assets. The terms of the flexible term note provide for payments of principal and interest to be deferred and abated respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts.

Mortgage payable

The mortgage is secured by land and buildings described in note 7.

Long-term debt repayment

Scheduled long-term debt repayments for the next five years is as follows:

2003	$ 1,052
2004	1,100
2005	1,180
2006	1,268
2007	1,365

12. LONG-TERM DEBT (continued)

Fair value

Fair value of $44,835,000 (2001 – $46,945,000) for all long-term debt was estimated using discounted cash-flow analysis based on an estimate of the Corporation's current borrowing rate for similar borrowing arrangements.

13. REGULATORY LIABILITIES

	2002	2001
Insurance proceeds held on behalf of ratepayers	$ 744	$ 744
Anvil Range Mine dewater revenue	1,425	1,060
	$ 2,169	$ 1,804

The insurance proceeds held on behalf of ratepayers amount represents the residual balance of insurance proceeds after allocation against all known fire-related reconstruction and operation and maintenance costs. The Corporation is required to use the balance of the insurance proceeds to the benefit of ratepayers. The allocation of this amount is subject to the Yukon Utilities Board approval.

Anvil Range Mine dewater revenue derives from Rate Schedule 34 customers, of which the Anvil Range Mine represents the only customer in the class. As directed by the Yukon Utilities Board in Board Order 1998-5, the Corporation is deferring revenues collected from this rate class until application to the benefit of customers is directed by the Yukon Utilities Board.

14. DEFERRED REVENUES

	2002	2001
Deferred gain on fire insurance proceed-capital assets (net of amortization and adjustments $3,088 (2001 – $2,698))	$ 8,516	$ 8,906
Sustainable energy development funds	5,725	6,465
	$ 14,241	$ 15,371

The deferred gain on fire insurance proceeds - capital assets represents the gain resulting from insurance proceeds received in relation to the reconstruction of facilities ($11,604,000, see notes 7 and 13) in excess of net book value of assets destroyed by fire. The gain is being amortized to income at the same rate that the replacement assets are being amortized, as approved by the Yukon Utilities Board Order 2000-3 (see note 7).

In 1999 the Yukon Government provided $6,000,000 towards sustainable energy in the Yukon. Two 10-year programs were established totalling $4,000,000 for green power and energy conservation and efficiency initiatives. $2,000,000 was provided for a wind turbine that was built in 2000. Interest earned on these funds is recorded as deferred revenue.

15. PENSION COSTS AND OBLIGATIONS

Yukon Energy Corporation has a defined benefit pension plan, which provides pensions based on length of service and final average earnings. The cost of pension benefits is determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, experience gains or losses, and changes in assumptions are amortized over the estimated average remaining service life of employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and experience gains and losses. Amortization is on a straight-line basis over the expected average remaining service life of pension plan members, which is currently 16 years.

Yukon Energy Corporation has contracted with external organizations to provide services of trustee, administrator and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of January 1, 2001 by the consulting actuarial firm Aon Consulting Inc. The results of the January 1, 2001 valuation have been projected to December 31, 2002 in accordance with generally accepted actuarial standards. The actuarial valuation includes services rendered by members under the Yukon Energy Corporation Employees Pension Plan from January 1, 1998 to December 31, 2002 and service credits in respect of pre-1998 service transferred to the Yukon Energy Corporation Employees Pension Plan from the Canadian Utilities Employees Pension Plan under the Acknowledgement and Agreement between Yukon Energy Corporation and the Yukon Electrical Company Ltd., dated February 5, 1999.

The fair value of plan assets is based on market values as reported by Royal Trust as at December 31, 2002.

The following table sets out the assumptions and pension amounts as at December 31, 2002. Yukon Energy Corporation's employees had the option to belong to the Corporation's defined benefit pension plan or a Registered Retirement Savings Plan (RRSP). Employees joining Yukon Energy Corporation after January 1, 2002 can only join the RRSP. As at December 31, 2002 the Corporation's defined pension plan had 42 members, and the RRSP had 24 members.

Pension benefits are based on:

- years of pensionable service,
- the average annual earnings during any 5 consecutive years of pensionable service where earnings are the highest, and
- the average of the years maximum pensionable earnings (Canada Pension Plan) for the same 5-year period.

15. PENSION COSTS AND OBLIGATIONS (continued)

Annual cost of living increases to a maximum of 3.00% are provided to pensioners. Yukon Energy Corporation contributes amounts as prescribed by an independent actuary.

Employees make contributions to the plan as follows:

- 3.5% of earnings up to the years maximum pensionable earnings
- 5.0% of earnings in excess of years maximum pensionable earnings

to a maximum of $2,500 per year.

Information on Yukon Energy Corporation's defined benefit plan as at December 31, in aggregate, is as follows:

	2002	2001
Discount rate	**6.50%**	6.50%
Expected long-term rate of return on plan assets	**7.00%**	7.00%
Assumed rate of salary escalation	**3.75%**	3.75%
Expected average remaining service life of employees	**16 years**	18 years
Benefit obligation determined by actuarial valuation	**$ 5,516**	$ 4,862
Fair value of plan assets	**4,018**	4,183
Plan deficit	**(1,498)**	(679)
Accrued benefit liability	**(223)**	(95)
Pension expense	**335**	268
Employer contributions	**207**	208
Employee contributions	**89**	79
Benefits paid	**(64)**	(206)

The Accrued benefit liability has been recorded on Yukon Energy Corporation's books of account and is included in Accounts payable on the balance sheet at December 31, 2002.

16. CONTINGENCIES AND COMMITMENTS

Mayo to Dawson City transmission line contract

As of December 31, 2002, the general contractor for the Mayo to Dawson City transmission line project has outstanding claims against Yukon Energy Corporation for work completed prior to December 31, 2002. Yukon Energy Corporation has outstanding claims against the general contractor. The amount and likelihood of settlement are not determinable.

Regulatory hearing funding

The Yukon Government issued OIC 2002/75 on March 27, 2002, directing Yukon Development Corporation to pay all costs incurred by the Yukon Utilities Board to conduct a utility franchise application

review process with respect to a proposed gas distribution system within the City of Whitehorse. The amount of costs Yukon Development Corporation will ultimately pay is not determinable at this time.

Government of Canada flexible term note

As described in note 12, the terms of the flexible term note with the Government of Canada provide for payments of principal and interest to be deferred and abated respectively, if particular power sales are less than specified amounts. The Corporation and the Government of Canada disagree on the definition of these power sales and the Corporation is making payments based on its interpretation of the note.

17. ENVIRONMENTAL LIABILITIES

The Corporation's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Corporation conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the Corporation, is considered probable and the costs can be reasonably estimated. To date, no such specific liabilities have been recorded in the Corporation's accounts.

18. COMPARATIVE FIGURES

Certain 2001 figures, which are presented for comparative purposes, have been restated to conform to the current year's presentation.

19. NON-CONSOLIDATED FINANCIAL INFORMATION

The nature and size of operations of the corporation and its subsidiaries, Yukon Energy Corporation and Energy Solutions Centre Inc., differ substantially. Audited financial statements of Yukon Energy Corporation and Energy Solutions Centre Inc. for the year ended December 31, 2002 are also prepared. Certain non-consolidated unaudited financial information of Yukon Development Corporation is provided for interested parties.

Yukon Development Corporation
NON-CONSOLIDATED BALANCE SHEET (unaudited)

Schedule 1

For the year ended December 31, 2002 (in thousands of dollars)

	2002	2001
ASSETS		
Current assets		
Cash and short-term investments	$ 10,807	$ 17,769
Note receivable	16,000	–
Accounts receivable	270	358
Prepaid expenses	11	11
Due from subsidiaries	327	–
Current portion of investment	288	10,254
	27,703	28,392
Trust assets	2,988	3,279
Investments		
Equity investments	39,000	39,000
Loans and advances	27,314	27,145
Direct financing lease	3,793	4,082
Capital assets	889	1,100
Deferred capital funding	6,844	5,483
	$ 108,531	$ 108,481
LIABILITIES		
Current liabilities		
Accounts payable	$1,077	$66
Interest payable	14	15
Due to subsidiaries	–	734
Current portion of long-term debt	278	249
	1,369	1,064
Deferred revenue	3,809	4,381
Trust liabilities	2,988	3,279
Long-term debt	3,806	4,084
	11,972	12,808
EQUITY		
Contributed capital	41,501	41,501
Retained earnings	55,058	54,172
	96,559	95,673
	$ 108,531	$ 108,481

Yukon Development Corporation
NON-CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS (unaudited)

Schedule 2

For the year ended December 31, 2002 (in thousands of dollars)

	2002	2001
Revenue		
Contribution – Canada	$ 187	$ 288
Contribution – Yukon	808	141
Dividend income	169	2,196
Finance income	529	559
Interest income	3,176	3,778
Other income	185	228
	5,054	7,190
Expenses		
Amortization	364	388
Board, corporate stewardship and administration	662	635
Corporate, environment and First Nations initiatives	159	140
Energy market transformation	1,068	903
Energy sector development	1,442	208
Interest on long-term debt	473	501
	4,168	2,775
Net income	886	4,415
Retained earnings, beginning of year	54,172	49,757
Retained earnings, end of year	$ 55,058	$ 54,172

Yukon Development Corporation
NON-CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Schedule 3

For the year ended December 31, 2002 (in thousands of dollars)

	2002	2001
Cash flows from operating activities		
Cash receipts from customers	$ 1,222	$ 1,055
Cash paid to employees and suppliers	(3,359)	(2,914)
Net interest received	2,680	3,277
Dividends received in the determination of net income	169	2,196
	712	3,614
Cash flows from investing activities		
Purchases of capital assets	(9)	(83)
Long-term investments	255	224
Loan and advances with related parties	(6,169)	(2,196)
Deferred charges	(1,502)	(2,981)
	(7,425)	(5,036)
Cash flows from financing activities		
Repayment of long-term debt	(249)	(223)
Trust fund assets	(325)	3,391
Trust liabilities	325	(3,391)
	(249)	(223)
Increase (decrease) in cash position	(6,962)	(1,645)
Cash position, beginning of year	17,769	19,414
Cash position, end of year	10,807	$ 17,769
Represented by:		
Cash	6,732	$ 13,326
Short-term investments - restricted funds	4,075	4,443
	10,807	$ 17,769
Interest paid during year	496	501
Significant non-cash transactions		
Operating activities		
Dividends received via non-cash transactions	169	2,196
Investing activities		
Change in investments from non-cash transactions	169	2,196
Financing activities		

PHOTOGRAPH CREDITS

Yukon Development Corporation 2002 Annual report

ESC: Energy Solutions Centre
GL: Gartner Lee Ltd.
YCS: Yukon Conservation Society
YE: Yukon Energy
YG: Yukon government
CA: Cathie Archbould
CO: Craig Olsen
DM: Doug MacLean
JP: J-P Pinard
MB: Marten Berkman
PL: Peter Long

cover: stream in Keno Hill area (PL)

awards page: VCR Inc. award to Yukon Development (PL)

facing p.1: fish release at Wolf Creek (CA)

p.1: Haines Junction (YG)

p.3: installing wind monitor in Old Crow (JP)

p.4: clearing for the new transmission line (CA); decommissioned fridges (CA); heat pump display at the energy/science fair (MB)

p.5: installing headcover at Whitehorse dam (YE)

p.6: installing wind monitor at Aishihik (JP)

p.7: Yukon Conservation Society walking tours (YCS)

p.8: facilities at Whitehorse Rapids dam (PL)

p.9: homes in the McIntyre subdivision (PL)

p.10: smoke over downtown Whitehorse (DM); map drawn up to examine air quality in a Whitehorse neighbourhood (ESC)

p.11: Hulburt Enterprises processing salvaged wood (PL); Appliance Rebate and Burn It Smart workshop held in Whitehorse (CO)

p.12: two views of workshops at the green building design competition (MB)

p.13: diesel plant at Pelly Crossing (PL)

p.14: drilling a test hole for ground source heat pump at Yukon Honda site (GL); wind monitor at Lake Laberge (JP)

p.15: award for House Calls Energy Efficiency Program (PL)

p.17: Yukoner Appreciation Night at Whitehorse Fishway (CA); Levitt Safety energy fair display (MB)

p.18: Swan Haven at Marsh Lake (YG)

p.19: preparing pole for new Mayo-Dawson City transmission line (CA); Wolf Creek fish fry release (CA)

p.20: using the P-TRAK to test exhaust gases from heater (MB)

p.21: board of directors (missing: Carl Charlie) (CA)

p.22, 23: board of directors (CA, MB)

p.24: testing warm water aquifer in Haines Junction (GL)

p.25: wind monitoring site at Luet property in Carcross (JP); Burn It Smart workshop (CA)

Yukon's energy solutions group of companies

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